

VZCZCXRO2340
RR RUEHRG
DE RUEHBR #2215/01 3371640
ZNR UUUUU ZZH
R 031640Z DEC 07
FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC 0567
INFO RUEHRI/AMCONSUL RIO DE JANEIRO 5514
RUEHSO/AMCONSUL SAO PAULO 1254
RUEHRG/AMCONSUL RECIFE 7445
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 02 BRASILIA 002215

SIPDIS

DEPT PASS USTR FOR KATE DUCKWORTH
DEPT PASS DOC/ITA/MAC/OLAC ANNE DRISCOLL
DEPT PASS TREASURY LUYEN TRAN

SENSITIVE
SIPDIS

E.O. 12958:N/A

TAGS: [EFIN](#) [ECON](#) [EINV](#) [PREL](#) [BR](#)

SUBJECT: BRAZIL:DEPUTY PALOCCI ECONOMICS MEETING WITH AMBASSADOR

¶1. (SBU) SUMMARY: The Ambassador met November 20 with Antonio Palocci, an influential pro-business Federal Deputy (PT, Workers Party, from Sao Paulo) and former Finance Minister. Deputy Palocci was enthusiastic about a possible US-Brazil regional infrastructure initiative and suggested specific projects focus on Bolivia, as a counterweight to Venezuela's influence. Palocci was supportive of a US-Brazilian bilateral tax treaty, noting its benefits for both countries' companies, but cautioned that Jorge Rachid (head of Brazil's federal revenue service, "Receita Federal," and responsible for tax treaty negotiations) feared loss of tax revenue under a treaty and would never support one unless this fear could be addressed. Palocci offered his best-guess on who might eventually replace Renan as Senate president and commented on PT strategy for renewing the CPMF. END SUMMARY.

POTENTIAL US-BRAZIL INFRASTRUCTURE INITIATIVE

¶2. (SBU) Deputy Palocci was enthusiastic about the regional infrastructure initiative Treasury is leading in developing with the Planning Ministry. Palocci saw the initiative as a way to revitalize the "group for growth" he had led while Finance Minister with former Secretary Snow. He emphasized infrastructure development was an important regional economic and political priority. Palocci advocated that the initiative should emphasize supporting an energy project with Bolivia. He said Bolivia looks to Venezuela because the country is too poor to accomplish anything without help. He saw a US-Brazil infrastructure initiative as a way to create interests for Bolivia apart from Venezuela and via IDB/Bank instruments. Palocci felt energy projects on the Brazil-Bolivia border would economically benefit both countries and provide an opportunity to elevate political integration that would counter Morales-Chavez cooperation. He emphasized that a regional energy agenda for infrastructure cooperation projects would be particularly helpful in improving integration of the region, moving countries in the region away from Chavez, and improving the climate in the region for international investment. Knowing President Lula well, Palocci felt he would want to support an agenda with this focus, while remaining careful to retain a good relationship with Chavez.

¶3. (SBU) Palocci opined that Planning Minister Bernardo was the perfect choice to lead this initiative on the Brazilian side and noted that Itamaraty and Casa Civil could be relevant in handling the political aspects of moving the initiative forward. At the Ambassador's request, Palocci agreed to discuss his views on the political aspects of a potential US-Brazil infrastructure initiative with both Bernardo and with presidential foreign affairs adviser Marco Aurelio Garcia. He agreed to speak again with the Ambassador before WHA A/S Shannon and EB A/S Sullivan's upcoming visit.

TAX TREATY

14. (SBU) Palocci stated the conceptual problem with a tax treaty is basically that Receita Federal models suggest a treaty would lead to tax revenue losses for Brazil. Palocci indicated he would meet soon with head of Receita Federal Jorge Rachid and explore whether this issue could be addressed. He reassured that new ways could be found to resolve the issue and commented that Rachid is pragmatic. Palocci then deflated the hopeful mood a bit in noting that "normally, Receita Federal will find any way possible to make it go wrong; Rachid undid the agreement we had with Germany." He promised to share feedback with the Ambassador after his meeting with Rachid.

A POLITICIAN ALWAYS TALKS POLITICS

15. (SBU) Palocci opined that the PT had made a tactical mistake in currying PSDB (Brazilian Social Democracy Party, a leading opposition party) support for extension of the CPMF (tax on financial transactions). He noted PT ended up short of the votes it needed and wasted a month attempting to build support. On possible names to succeed embattled Senate President Renan Calheiros if/when he resigns (considered a near certainty), Palocci thought Senator Jose Maranhao (PMDB, Brazilian Democratic Movement Party, governing coalition; of Paraiba) or Senator Edison Lobao (PMDB; of Maranhao, a protege of Jose Sarney, senator and former president of Brazil) were most likely, and Senator Gerson Camata (PMDB; of Espirito Santo) or Senator Garibaldi Alves (PMDB; of Rio Grande do Norte) were also possibilities.

BRASILIA 00002215 002 OF 002

16. (SBU) COMMENT: Deputy Palocci remains influential within the PT party following his stint as Finance Minister. He is well-connected with a strong sense of what the executive and legislative branches are willing and able to accomplish on economic issues. His enthusiastic support, for political as well as economic reasons, for the developing infrastructure proposal and his willingness to engage on the tax treaty are encouraging signs for eventual success of these bilateral initiatives. END COMMENT.

SOBEL